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ABSTRACT

This booklet, one of a series of booklets intended to apply economic principles to major social and political issues of the day, traces the modernization of the ancient culture of Japan. Four major areas are covered: (1) "An Ancient Culture" covers the period from the first settling of Japan through the Heian period, the medieval ages, the Meiji restoration, and the development of Japan as a world power. (2) "Postwar Japan" covers the rebuilding of Japan, economic recovery, and social and political change. (3) "Contemporary Japan" deals with Japanese industry, lifetime employment, labor unions and management, production innovations, domestic problems, environmental and social issues, farm subsidies, and budget deficits. (4) "United States-Japan Relations" covers Japanese concerns, trade frictions from the Japanese perspective, government subsidies, Japanese protectionist measures, agriculture, and national defense. A concluding section stresses the need to remove all trade barriers in an atmosphere of mutual understanding. (IS)

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PREFACE

I am indebted to the Keizai Koho Center and the National Council for the Social Studies for sponsoring an annual program which makes it possible for American educators to visit Japan. I feel privileged to have been selected as a member of the group which visited Japan during the summer of 1982. The information presented in this booklet reflects my experiences in Japan and the research conducted since my return to the United States. Because it is impossible to describe all important facets of a nation in a single booklet of this size, I have chosen to focus on Japan's economic system. To properly do so, however, its social, political and education systems and Japan's rich history of cultural traditions must also be understood.

Perhaps the most valuable experience of my trip was the realization that we Americans know very little about life in other parts of the world. We tend to think that the American way is not only the right way but the only way. In reality, there are a wide variety of points of view. And it is not necessarily true that one is right and the others are wrong. There are simply many different ways of looking at things. In spite of the simplifications which had to be made and the numerous topics which are not covered here, this booklet attempts to convey my impressions of contemporary Japan. Hopefully it will enable the reader to more accurately place Japan in perspective on the international scene, encourage a recognition of mutually shared problems, and generate fruitful discussions of these problems. An inevitable result of learning more about others is a better understanding of ourselves.

AN ANCIENT CULTURE

Japan today is a harmonious blend of the old and the new. Alongside the most modern buildings and stores are ancient temples, shrines and castles. The newer parts of Japan are the result of an effort to modernize after World War II. Many of the older traditions of the Japanese culture can be traced through thousands of years of Japan's rich history. To fully understand the Japan of today, one must first take a brief look at its ancient culture.

ANCIENT TIMES

The Japanese people are descendants of races from Micronesia and the Asian Continent who began settling the chain of islands off the east coast of Asia more than ten thousand years ago. As these early inhabitants intermarried, they began to form local tribes and clans. The spoken language which developed has no close relatives although the present method of writing has Chinese origins. As the various groups living in Japan vied for power, a number of clans gradually came under the control of a single person. Legend has it that the first ruler of Japan, Emperor Jimmu, ascended the Imperial throne in 660 B.C. and was a direct descendant of the Sun Goddess Amaterasu. Even though all subsequent emperors claimed to be direct descendants of the first Emperor, they very rarely exercised real political power.

Shintoism, the only religion indigenous to Japan, grew out of the folk myths and beliefs of the primitive Japanese people. Natural objects such as rocks and trees were believed to hold spiritual forces (or kami) so that the number of Shinto gods is extremely large. The divine nature of the Emperor became one of the basic beliefs of Shintoism. This belief eventually expanded to include the worship of ancestors and heroes. Over the centuries Shintoism gradually became an integral part of Japan's cultural heritage. Even today many Japanese families are associated with a local Shinto shrine.

Being an island nation has helped protect Japan from invasion. During much of its early history Japan remained relatively isolated from the Asian continent. As a result, social and cultural developments took place relatively independent of events occurring on the mainland. As the Emperor began to consolidate his power during the fourth century A.D., the Japanese began to look beyond their own borders. Before long, Japan came under the influence of China and, to a lesser extent, Korea. This occurred at a time when China was perhaps the richest, most powerful, and most technologically advanced nation in the world. By 500 A.D. Japan's desire to learn more about this wealthy nation became almost insatiable. The government sent many of Japan's youth to the continent to spend several years studying China's philosophy, laws, arts, sciences, architecture and governmental structure. The knowledge brought back by these young people greatly influenced

Japanese arts, crafts, and learning in general. This organized effort by the Japanese to absorb ideas from another country into their culture established a precedent for later, similar experiences.

Buddhism was just one of the things Japanese scholars brought home with them during the sixth century A.D. Buddhism emphasizes resisting one's own selfish desires and placing little importance on the material things in life. It became quite popular first among the ruling class and then among the common people. Even though many Buddhist temples were constructed during the ensuing centuries, it has never completely replaced Shintoism. Today, both Shintoism and Buddhism play an influential role in the daily lives of many Japanese. In fact, it is not uncommon for a family to practice both religions. As a result of this dual religious heritage, the Japanese show a greater concern for nature, are more interested in their ancestors, and place less importance on the material things in life than most Americans do.

THE HEIAN PERIOD (794-1191)

China's influence on Japan was not limited to its religion. In 645 the Japanese restructured their system of laws and governmental organizations to more closely resemble the Chinese model. This transformed Japan from a society of loosely associated clans into a more closely-knit monarchy. The land reform which accompanied this transformation brought the people under the control of the state rather than the powerful families in Japan. Each farmer, for example, received a half acre of land and in return was taxed by the state and required to devote some of his time to defending the nation. Direct rule by the Emperor was short-lived, however. Beginning in the 800s and lasting for a thousand years, Japan was ruled for all practical purposes first by the nobility and then by warriors called shoguns. In spite of their differences, all of these governments had one thing in common—they based the legitimacy of their rule on the sovereign rights conferred upon them by the Emperor.

During this Golden Age, Kyoto reached its height of power and wealth as the capital of Japan. By 1000 A.D. its population of a half million was larger than most European cities of the same period. In Kyoto, the ruling class lived a life of luxury which increasingly isolated them from the rest of Japan. Even though the ruling class lived in such elegance, the ordinary Japanese received some benefits. The first Japanese university, for example, was founded around 900 and a system of provincial schools was established.

Just as it occurred in the courts of Europe, political intrigue became common place in Kyoto. As the Emperor became increasingly interested in the extravagances of his court, he became less capable of administering the complexities of the government and came to rely more and more upon the noble families to run Japan. By strengthening its ties with the Emperor, the Fujiwara family eventually became the most powerful

family in Japan. While this struggle for power was going on in Kyoto, the nobility gradually regained control over the land and began the practice of employing warriors to control the peasants. This resulted in the rise of several military clans, including the Minamoto and Taira families. As the Heian Period drew to a close, the Taira replaced the Fujiwara as the most powerful family in Japan.

THE MEDIEVAL AGES (1192-1867)

Near the end of the twelfth century, the internal struggles for power turned into a series of open clashes between several influential families. Finally, the head of the Minamoto clan, Minamoto Yoritomo, defeated the Taira and assumed all political power in Japan by being declared the Emperor's shogun. Yoritomo set up his Shogunate government in Kamakura and quickly established a feudal system to assure his continued power. Feudal lords were allowed to rule over their territory and the people who lived there in exchange for a pledge of loyalty to the shogun. This arrangement resulted in Japan being ruled by a series of warrior aristocrats for the next 700 years.

An integral part of this system were the samurai—a class of warriors who set the standards for Japanese chivalry during this period. The unswerving loyalty of the samurai to their lord demanded that they commit suicide rather than surrender or accept disgrace. The samurai's indifference to suffering and the personal loyalty of the samurai gradually became a part of the culture and are reflected in Japanese attitudes even today. Perhaps of greater importance were the samurai's contributions toward keeping Japan a nation independent of foreign domination. These warriors were instrumental in turning back two invasions by the powerful Mongol Emperor Kublai Khan. Defeating the invaders from the mainland was a key factor in the development of the Japanese as perhaps the most homogenous race and culture of any major nation in the world today.

This period of Japanese history differed from the feudalism of Medieval Europe in one important respect. Education and the arts often thrived. During the sixteenth century, for example, the tea ceremony, flower arranging, the traditional theatrical arts of Noh and Kyogen, as well as Kabuki and other artistic endeavors like painting and sculpture increased in popularity among the common people. In addition to these cultural activities, the skills of making swords and armor were raised to the level of a high art. Many of these art forms are still practiced in Japan today, although the Japanese youth are less interested in them than their parents and grandparents would like.

Toward the middle of the sixteenth century, Japan experienced its first contacts with Europeans. The Portuguese came initially as traders to expand their vast commercial empire and then as missionaries to spread the word of Christianity. They were soon followed by the Spanish and then the Dutch and the English. As had occurred during

Today the traditional kimono is worn only for special occasions.

the Heian period, Japan saw certain aspects of a foreign culture that it liked. However, this time the Japanese were more interested in the mechanical devices of the foreigners than their philosophies. Perhaps the most highly prized of these devices was the smoothbore musket, which the Japanese quickly became proficient at manufacturing.

When the Portuguese arrived, the Ashikaga Shogunate was beginning to deteriorate after ruling Japn for more than two centuries. The civil wars which began in 1573 continued until the end of the century when the Tokugawa Shogunate was established. The new Shogun, Tokugawa Ieyasu, established his capital at Edo (now Tokyo) in 1603.

While allowing each region to be ruled by an individual lord (or diamyo), Tokugawa controlled the entire nation through a highly centralized system which was far stronger than any of the previous shogunates. The peace which existed for over 200 years under the Tokugawa Shogunate spurred the development of an improved transportation system of new roads and bridges throughout Japan. As a result, commerce flourished and a wide variety of cultural activities quickly spread across the country.

One of the first problems faced by the Tokugawa Shogunate was what to do about the European traders and missionaries who had become increasingly active in Japan. Although they welcomed the foreigners with a cool friendliness, the Japanese were greatly disturbed by the religious quarrels between Protestants and Catholics, even between Jesuits and Dominicans—all of whom claimed to be Christians. Fear of the European galleons with their powerful cannons added to Japan's apprehensions concerning the true motives of these foreigners. The Tokugawa Shogunate learned in 1614 of a plot by Japanese Christians to overthrow the government with the help of the Europeans. Shortly afterwards, all foreigners were expelled from Japan, with the exception of a few Dutch and Chinese traders who were restricted to a small island in Nagasaki. In essence, Japan remained isolated from the rest of the world for the next two hundred and fifty years.

THE MEIJI RESTORATION

By the beginning of the nineteenth century, the Tokugawa Shogunate faced ever-increasing pressure to open Japan to foreign traders. Commodore Perry's arrival in Tokyo Bay in 1853 set in motion a series of events which resulted in the downfall of the Tokugawa Shogunate and led to Japan becoming a world power. Shortly after the Shogunate collapsed in 1867, the emperor was restored to power and became the head of a constitutional monarchy consisting of independent legislative, executive, and judiciary branches. Emperor Meiji is considered to be the founder of modern Japan.

After more than 200 years of isolation, Japan was ready to rush into the modern age. Major political, economic, social and military changes took place rapidly. As had occurred during the Heian Period, in 1871 the best of Japan's youth were sent as part of the Iwakura mission to selected Western countries—which included the United States, England, France, Sweeden and Germany. Their task was to learn as much as possible about Western civilization and its superior technology. The observations of the Iwakura mission were published in 100 volumes during 1878. The government then chose what it felt was the best each country had to offer.

With the knowledge gained from the Western world, the Japanese reworked their government, their economy, and their social institutions. During the 1880s, for example, the government sought to establish an

authoritarian Imperial state patterned after that of Prussia. This was accomplished despite the development of a popular rights movement which demanded a democratic parliament.

The result of the Meiji Restoration was a harmonious blending of Western ideas with the traditional Japanese culture. The Japanese undertook this crash program of modernization as much from the fear of a Western takeover similar to that which had occurred in China as from a desire to improve conditions in Japan.

BECOMING A WORLD POWER

Within the surprisingly short time of a few decades, Japan transformed itself from a country isolated from the outside world to a major world power. Following the example of Western imperialism and in an effort to protect itself from the Russian presence on the Asian mainland, Japan slowly began to expand its sphere of influence. At the end of the Sino-Japanese War in 1894-95, Japan gained control over Korea, Formosa, and the Pescadores.

The Japanese learned two important lessons from that war. First, military strength meant international respect and independence. Second, Japan learned to distrust Western nations. When China ceded Port Arthur, Dairen, and the peninsula of Liaotang to Japan as a part of the agreement ending the war, France, Germany, and Russia presented the Japanese with an ultimatum to return these prizes to China. As soon as Japan complied with the ultimatum, Russia appropriated the territory for itself. The memories of this and similar incidents still linger in Japan today.

From the Japanese point of view, Russia posed a clear threat to Japan itself and to its new imperial possessions. When war broke out in 1904, Japan appeared to be militarily inferior. However, the Japanese army won a major victory at Mukden and the navy, under the command of Admiral Togo, destroyed Russia's Baltic fleet off Tsushima. When the war ended, Japan gained control over the southern half of Manchuria. Perhaps more important than the new territorial gains was the knowledge that a small oriental nation could defeat a major Western power.

Even though the United States and Japan entered the twentieth century as friends who shared a great deal of mutual respect, events on both sides of the Pacific began to push the two nations apart and paved the way to that fateful day in 1941. Historian John Toland described the road leading to war as being paved with, "mutual misunderstanding, language difficulties and mistranslations, as well as Japanese opportunism, gekokujo irrationality, honor, pride, and fear—and American racial prejudice, distrust, ignorance of the Orient, rigidity, self-righteousness, honor, national pride and fear."[1]

At the turn of the century, the Japanese viewed China as the key to their becoming a world power and to future economic growth. As Japan's industries began to expand and foreign trade increased, it soon

became evident that the domestic resources of this small island nation were insufficient to support such growth. An ever increasing population placed added pressures on Japan's natural resources. China's vast deposits of iron, coal, and other minerals promised to provide the resources necessary to support Japan's industrial growth. In addition, China's market was potentially the largest in the world and offered the prospect of increasing prosperity for an indefinite period into the future. Japan's designs on China were quickly condemned by America, an attitude which seemed peculiar to the Japanese. After all, wasn't the United States doing exactly the same thing in Mexico and the Carribean?

A significant event which contributed to increased frictions between the two countries was the passage of the Immigration Law by Congress in 1924. This law prohibited Japanese living in the United States from owning land. To make matters worse, some states prohibited Japanese from marrying Caucasians and forced Japanese children to attend segregated schools. From this point on, a growing number of Japanese suspected that many of America's actions on the international scene were racially motivated.

By the 1920s, the rapid industrialization of the previous decades had begun to split the Japanese people into industrial workers living in the cities while the more traditional rural population lived in the countryside. Since most of the enlisted men and officers in the Army and Navy came from the more traditional rural stock, they took a dim view of the general direction of social and political events in Japan's major cities.

Because of the tremendous importance of foreign trade, the protectionist measures adopted by Western nations during the 1930s had a devastating effect on Japan's economy, particularly its agricultural sector. Many of the officers in Japan's military viewed China as the solution to the nation's economic dilemma. It could simultaneously provide the raw materials Japan needed and act as a market for Japanese goods. During the early 30s Japanese militarists gained political prominence and gradually increased their control over the nation's domestic and foreign policies. While the civilian government's control over the military continually declined, the military used its newly acquired power to increase the Japanese presence in China. War finally broke out in 1937. By July, 1941, Japanese troops occupied the southern half of Indochina. In response, the United States and Great Britain placed an embargo on all shipments of essential raw materials to Japan. The United States insisted that Japan withdraw its troops from China before any settlement could be discussed. The blow to national pride which resulted from such a withdrawal of Japanese troops was unacceptable to the military—particularly the Army. The only recourse to economic strangulation left to Japan was to further expand its empire. As history notes, the military chose to attack Pearl Harbor—a decision that was not popular among all Japanese. Even today many Japanese feel their

country was forced into World War II by a small group of its military officers who had grown too powerful. This experience is an important factor in understanding current anti-military feelings in Japan and the widespread reluctance to increase defense spending.

POST-WAR JAPAN

When World War II came to an end in 1945, Japan was in ruin. The extent of the devastation is difficult for most Americans to comprehend. All of Japan's major cities, with the sole exception of Kyoto, had been bombed extensively during the last few months of the war. Everyone is familiar with the fate of Hiroshima and Nagasaki; few, however, realize that Tokyo, Nagoya, Osaka, Kobe and many other Japanese cities were equally devastated. The only difference is that their destruction occurred over a period of months rather than in one instant of time. In either case, the result was the same—smoldering rubble.

The physical scars of the war reflected only a small portion of the despair which gripped Japan in late 1945. Edwin Reischauer, a former U.S. Ambassador to Japan, describes the scene:

> "Some 2 million of her people had died in the war, a third of them civilians; 40 per cent of the aggregate area of the cities had been destroyed, and the urban population had declined by half; industry was at a standstill . . . [The Japanese] were physically and spiritually exhausted. Many were in rags and half-starved, and all were bewildered and mentally numbed."[2]

Japan's current success is truly impressive when one fully realizes how far the Japanese people have come in such a short period of time.

REBUILDING A NATION

Many Japanese felt the key factor in losing the war had not been a difference between the capabilities of the individual Japanese and American soldiers, but rather the superior ability of the American economy to rapidly produce large quantities of war materials. It seemed only natural, then, to use America's free enterprise system as the model for rebuilding Japan. As it had done twice before in its history, Japan sent some of her finest young people to a foreign country to study its economic, political, social, and educational systems. The knowledge gained from their studies in the United States was then used to restructure Japan's major institutions while maintaining the essence of the Japanese culture. This desire to assimilate the best that America had to offer resulted in an amazingly high degree of cooperation between General MacArthur's occupation forces and the the Japanese people.

The success of Japan's efforts to rebuild itself has far exceeded anyone's expectations. Today, the Japanese enjoy one of the highest standards of living in the world. This amazing economic improvement occurred at a time when many nations around the world were struggling to raise themselves from the depths of poverty. Can developing nations learn something from Japan's experience? Yes, provided the reason for Japan's success is clearly understood.

Two popular theories are often cited to explain why developing nations remain poor. Some blame their poverty on a lack of natural resources; for others, a high population density is supposedly the cause. Consider Japan. It has very few natural resources of its own and must therefore import the vast majority of the resources it uses. For instance, over ninety percent of the crude oil it consumes is imported. In addition to raw materials, Japan's population density is 311 people per square kilometer—three times as dense as China, over one and a half times as dense as India, and more than twelve times as dense as the United States. To be comparable to Japan, half of the U.S. population would have to live in the state of California. If a lack of domestic resources and a high population density are crucial in determining a nation's economic condition, then Japan should be one of the poorest nations on earth instead of one of the most prosperous.

It took the Japanese people less than forty years to transform their country from nearly complete devastation into one of the world's leading economic powers. The economic, social, political, and educational institutions it adopted were key factors in Japan's success. Its accomplishments, however, have not come easily. The world is well aware of Japan's success in such areas as the steel and automobile industries. But little is said of the economic and social problems the Japanese face today. A closer look at Japan's experiences since the war are informative for developing and industrialized nations alike.

RECOVERY (1945-mid-50s)

In spite of some minor misunderstandings and mistakes on both sides, America's post-war occupation of Japan was marked by a surprisingly high degree of friendly cooperation. This success was due in large part to General MacArthur's decision to govern through the already existing bureaucracy of the Japanese government rather than try to rule the country directly. One important decision was to allow the Emperor to remain on the throne as a symbol of Japanese unity but with little real political power.

Under the new constitution which went into effect in May, 1947, the Japanese government was restructured to resemble the British parliamentary system. The Diet is the legislative branch of the government and is the most powerful of the three branches. It consists of the House of Representatives with 511 seats and the House of Councilors with 252 seats. When the voting districts were first formed, the agricultural areas of the country were given a disproportionately large representation in the Diet because the American occupation forces preferred their conservative nature to the more liberal views prevailing in the large cities. Consequently, the agricultural sector has had considerable influence on the government's economic policies over the years. Some of the major budgetary problems Japan faces today stem from the wide variety of

agricultural programs which have been instituted since the end of the war.

The Prime Minister heads the executive branch of government and is chosen by the Diet from among its members. He then appoints the 12 ministers of state, most of whom are also members of the Diet. The Cabinet, as it is called, controls the administrative power of the government, manages foreign affairs, and prepares the budget. The judiciary branch consists of a Supreme Court and a variety of lesser courts. Together the three branches of government have provided Japan with the stable political system necessary for economic development to take place.

As a condition of surrender, all of Japan's military forces were demobilized, leaving the United States responsible for the defense of Japan. The new Japanese Constitution renounced the use of war as a means of settling international disputes while retaining Japan's right to defend itself. In 1950 the National Police Reserve was established to maintain domestic peace. It was reorganized in 1952 and again in 1954 when Japan's Self Defense Force was established. The anti-military sentiments stemming from the memories of the military's role in getting Japan involved in World War II have remained strong and have been a key factor in limiting the size of the Self Defense Forces. In recent years, this has created considerable friction between the United States and Japan because many Americans want the Japanese to increase their military spending so they can take a more active role in defending their country.

During the occupation a major change in Japanese society occurred when Japan's educational system was completely restructured. Although a system of compulsory elementary education had been established in 1867, as late as 1935 less than 20 percent of Japan's youth went on to secondary school and less than three percent received a college education. The School Education Law of 1947 established an educational system patterned after America's 6-3-3-4 system. All Japanese children 6 to 14 years of age were required to attend school. This typically took a student through six years of elementary school and 3 years of lower secondary school. By 1955 just over half of these students continued on to upper secondary school; in recent years this percentage has climbed to 94 percent. To continue their education at a university, students must compete with each other on the nationwide entrance examinations given each year during January. Between 1955 and 1980 the percentage of students going on to universities and junior colleges increased from 10 percent to 37 percent. Over the years, Japan's educational system has provided the well-educated populace needed in a highly industrialized and technological society.

With mining and manufacturing at less than 15 percent of their prewar production levels combined with severe food shortages and rampant inflation, Japan took several steps to revitalize its economy using

Japanese students help clean up their school at the end of each school day.

the American economic system as its model. In an effort to decentralize the business sector, the zaibatsu were dissolved and the "Law for the Elimination of Excessive Concentration of Economic Power" was passed. The zaibatsu had developed during the Meiji Restoration as groups of closely knit subsidiary companies which cooperated to expand

their economic power. The Mitsubishi Honsha zaibatsu, for example, was a single holding company which owned the shares of all of its affiliated firms. This type of zaibatsu was commonly controlled by a single family and run by the head of the family. The effort to prohibit private monopolies from restraining trade or practicing unfair methods of competition shortly after the war reflected more the antitrust sentiments of the American occupation forces than the true feelings of the Japanese.

During the early 50s America's attitude toward Japan began to change and so did its policies. Shortly after the peace treaty was signed in 1951, Japan's antitrust laws were revised to make it easier for companies to merge and once again allowed interlocking directorates. The result was the gradual reappearance of the zaibatsu but in a slightly different form. Instead of being under the control of a single family, many of the new zaibatsu were industrial and bank-centered groups. Cooperation between members of a group ranged from sharing information concerning technological developments and pricing strategies to interdependent financial transactions and the joint development of new business lines. The resurgence of the zaibatsu occurred at a time when Japan was beginning to expand its markets overseas. Many Japanese felt close cooperation was necessary to make Japanese products competitive in international trade. Today, these industrial groups dominate much of Japan's economic activities. Many American companies have come to view the economic and political power of these groups as a major factor contributing to the barriers American goods face in entering Japan.

Land reform was another major change which took place. Before the war, much of the agricultural land was owned by absentee landlords. During the American occupation, the land was sold at very low prices to the tenant farmers who had been working the land. The result was the creation of a large number of small farms. Even today the average size is only 1 hectare (or 2½ acres). Land reform coupled with the structure of the Diet contributed to the political power Japanese farmers have enjoyed since the end of the war.

The establishment of a democratic government, the creation of an educational system to serve the vast majority of the populace, and the economic reforms which were instituted during the American occupation combined to form the strong base the Japanese needed to rebuild their country. The recovery began rather slowly at first but advanced rapidly once a large number of Japan's factories had been rebuilt.

ECONOMIC GROWTH (mid-fifties through the sixties)

In 1955 Japan's Gross National Product (GNP) amounted to $22.7 billion. This was less than 6 percent of America's GNP and about half that of Germany, France, or England. During the next fifteen years, the Japanese government promoted economic growth by developing the infrastructure needed for industrialization and by providing incentives

for the development of the industries it felt were best suited to compete on world markets. Initially, economic growth was keyed to private investment in new plants and equipment. Japan's pre-war economy had been based on light industries like textiles and industries closely associated with the military. In the late 50s the Ministry of International Trade and Industry (MITI) supported the development of heavy industries like steel and ship building. The government also encouraged the decentralization of the nation's industrial complexes. As a result, companies began shifting their operations from major cities like Tokyo, Osaka, Kobe, and Yokohama to new places like Chiba, Shizuoka, Hokkaido, and the Seto Inland Sea area. This dispersal of industries all across Japan did not occur without controversy. Many opposition groups felt this new development damaged the local environment. This concern for nature dates back to the early influences of Shintoism on the Japanese culture and resulted in the development of a wide variety of environmental programs during the 70s.

The early years of this period of economic growth were also marked by a shift in Japan's primary industrial energy source from coal to the then less expensive form—oil. This was accompanied by the development of a strong petrochemical industry. As strange as it may seem today, Japan benefited initially from this shift to oil as its primary energy source. At the time, no one could foresee the OPEC oil embargoes of the 70s and the resulting economic problems Japan would have to face.

Much of the early economic growth of the late 50s was spurred by the production of consumer goods for consumption by the Japanese people. While the production of these goods resulted in an ever-rising standard of living, it also required the constantly increasing importation of raw materials. Once the harsh reality of this situation sank in, Japan realized it must export or die. As a result, Japanese industry's only alternative was to turn its eye toward the world market.

Even though heavy industry accounted for roughly 70 percent of Japan's exports during the 60s, the production of transistor radios, television sets, tape recorders, and household electrical appliances continued to increase. As Japan's markets around the world expanded, a yearly real rate of growth in GNP which exceeded 10 percent was maintained for most of the 1960s. By 1970, Japan's GNP had surpassed the $200 billion mark. In fifteen years the Japanese economy had increased from less than 6 percent to 20 percent of America's GNP and had exceeded the GNP of Germany, France, and England. Japan's spectacular economic growth made it the envy of industrialized nations around the world. This also made it very easy for other nations to feel that their economic problems were caused by Japan's economic prosperity.

CONTEMPORARY JAPAN

For Japan, the 70s proved to be a mixture of the economic success of the previous decade and some potentially serious economic problems. On the positive side, the steel and automobile industries continued to gain a larger share of the world market. The real growth rate slowed somewhat but still remained far above that of most other industrialized nations. The standard of living improved for the majority of the Japanese people. On the negative side, OPEC's oil embargo in 1973 gave Japan's economy a severe shock. The rate of inflation hit 11 percent in 1974. By the end of the decade Japan's once prosperous shipbuilding industry was operating at only 70 percent of its capacity. The government's budget deficits were increasing at an alarming rate. Many Japanese were beginning to wonder whether or not Japan's economic success could offset these new economic problems.

Matters were made worse as the world economy moved into a recession during the early 80s—economic activity slowed and unemployment climbed worldwide. Each nation blamed someone else for their economic woes; sentiments increased for a wide variety of protectionist actions by governments. In the United States, for example, Detroit's high unemployment rate was blamed on Japanese imports. A slumping steel industry claimed it could not compete with Japanese and European producers because of the subsidies they allegedly received from their governments. The solutions seemed obvious—import quotas on Japanese automobiles and trigger prices on foreign steel. As Americans heard more and more about domestic economic problems in contrast to the successes of the Japanese economy, economic and political relations between the United States and Japan became increasingly strained. What few Americans realize is that, in spite of the economic progress made since the war, Japan faces some very serious economic problems.

JAPANESE INDUSTRY

A key factor in Japan's economic success has been the development of its major industries. As it had done twice before during its history, Japan assimilated what it felt were the best aspects of another society. In this instance, its businesses were patterned after American industries. The result has been Japanese industries which are simultaneously the same and different from their American counterparts. From the Japanese point of view, they have merely improved upon the basic American model of business organization. It is only natural then for them to be somewhat surprised at America's sudden interest in how Japanese industries are run. Japanese businessmen are quick to point out that they are merely applying the basic principles which made America the world economic power that it is today.

A good example of this phenomenon is the recent interest by

Americans in the high quality of Japanese products—particularly automobiles, cameras, and television sets. Quality control was first introduced in Japan during 1951. Dr. W. E. Deming, an American expert on statistical quality control, was invited to Japan to share his ideas with the leaders of the then struggling Japanese industries. The philosophy which gradually emerged after Dr. Deming's visit focused on the worker as a valuable individual whose opinions can make important contributions to improving the production process. The Japanese feel that allowing workers to apply their ideas and rely on their own experiences results in increased productivity and higher motivation to excel at every stage in the production process. This view contrasts sharply with many American businesses where workers are commonly viewed as cogs in the assembly line who quickly become alienated from their work. It is ironic that the main effect of Dr. Deming's ideas on American businesses has been the suggestion box which, for the most part, is ignored.

Worker participation in Japanese industry is exemplified by the Quality Control Circle—a group of approximately ten co-workers. The QC circles meet regularly either before or after work to discuss ways of improving product quality and reducing production costs. This system tries to reduce the distinctions between manager and worker in an effort to encourage the mutual exchange of information. For the QC circles to be effective, management must be willing to listen to and implement suggestions made by the workers. If allowed to operate properly, both management and labor benefit from this arrangement. Increased quality and lower costs make the company's product more competitive on the world market and helps to improve the company's profit picture. Workers feel they are making a real contribution to the daily operation of the company and are therefore less likely to become alienated or bored by their work. Perhaps of more importance, a profitable company can keep its workers employed.

LIFETIME EMPLOYMENT

The QC circles are just one of the ways the relationship between management and labor in Japanese firms differs from their American counterparts. In recent years Americans have heard a lot about the lifetime employment of Japanese workers. When a major Japanese firm hires a new employee, it does so with the idea that the person will remain with the company during his or her entire working lifetime. One of the benefits of this arrangement is the strengthening of the bond between firms and their employees. Under this system, the firm assumes an almost paternal role with a genuine interest in the well-being of its workers. For example, firms conduct continuing education programs on an annual basis for their employees and provide recreational facilities for the workers and their families. In return, Japanese workers are extremely loyal to their employers and clearly realize they have a vested interest in the company's success. Only a few American com-

These employees of Mazda participate annually in educational programs conducted at the company's training center.

panies, like IBM, have anything similar to the lifetime employment practiced in Japan.

The positive aspects of this sytem are also accompanied by some problems. Only one-third of the Japanese workforce is covered by this system—those working either for the government or for Japan's major industrial groups. The other two-thirds of the workforce is subject to rising unemployment during a general economic slowdown. One way major firms try to insulate themselves from the problem of layoffs during a recession is by contracting out much of their work to smaller companies. They then simply reduce their orders when a slowdown hits the economy. For the nation as a whole, this does not solve the problem of unemployment; it merely shifts the burden of the unemployment problem from the major industrial groups to the other sectors of the economy. It should also be noted that lifetime employment means retirement at age 55 on a pension that is much smaller than those commonly enjoyed by American workers. This may partially explain the high savings rate of Japanese workers and the existence of extended families where children take care of their retired parents.

Because the major firms make a lifetime commitment to their employees, they are very selective in their hiring practices. This places a tremendous amount of pressure on Japanese youth to do well in school to enhance their chances of receiving one of these highly prized jobs.

This is particularly true for those who wish to enter any of the large industrial groups at the management level because this requires a degree from one of Japan's best universities. Since acceptance to all universities is determined by highly competitive national entrance examinations, the third year of the upper secondary schools is devoted almost entirely to preparing students for these exams. It is not uncommon for high school seniors to attend their regular school during the day and spend several hours each evening in a private school receiving extra instruction. Because a person's score on these exams will essentially determine his or her economic position for life, there is tremendous pressure to do well. The recent rise in the suicide rate among Japanese youth resulting from this pressure has become a concern of people at all levels of Japanese society.

LABOR UNIONS AND MANAGEMENT

Japan also differs significantly from America in the structure of its unions. Instead of being industry-wide, they are organized within an individual company. This tends to create an atmosphere of cooperation between labor and management because if a strike is called, only that company is shut down. This would place the firm at a disadvantage compared to its competitors and may result in it losing some of its share of the market. Both management and labor would be adversely affected. This creates incentives for both sides to work together to make the company as successful as possible and thereby benefiting everyone involved. This contrasts sharply with the American view that management and labor are adversaries where a gain by one side comes only at the other's expense. For the most part, then, the Japanese feel that unions have been a positive factor in the private sector. However, some are beginning to question the value of unions in the public sector because much of their activities have recently focused more on influencing government policies than on resolving economic issues affecting their members.

The Japanese have also developed a somewhat different approach to managing their companies. In the United States, a person commonly specializes in a particular field—accounting, sales, personnel, advertising, etc.—and works in that department during his entire career, gaining promotions within the company or by switching companies. In Japan, a university graduate is hired for life and typically spends his first two years with the company in a variety of on-the-job training programs. This may include, for example, several months working on the assembly line to become familiar with this phase of the company's operations. When this initial training period is completed, he is assigned to a specific department within the company. Every two or three years, management personnel are transferred to a different part of the company. In addition, they participate in annual seminars at the company's training facilities. The concept that education is a lifetime process has

become an integral part of Japan's culture. The Japanese feel a diversity of assignments produces managers who have a much broader understanding of the company as a whole and can therefore be more effective in improving the firm's operations. Contacts made during these assignments, for example, make it easier for the different divisions within a company to coordinate their activities because the people involved frequently already know each other. This makes the group's efforts much more effective.

The Japanese emphasis on working together as a group rather than as individuals is clearly visible in the way their offices are arranged. In American firms, management personnel at all levels aspire to have their own private offices. In Japan, only the top executives have a private office. Everyone else works in large rooms filled with desks—not unlike the secretarial pools common to American companies. The major difference is that the desks are pushed together in groups including both secretarial and management personnel. This encourages workers to be friendly with each other and to discuss the various projects on which they are working. The simple act of answering someone else's phone when they are not at their desk keeps everyone informed concerning the work that person is doing. Having a desk in a large group near the center of the room is a symbol of success. In contrast, a single desk near a window is an indication of an individual who does not work well in a group and reflects badly on his or her chances for a promotion.

In the typical Japanese office, desks are arranged in small groups to encourage employees to work together.

PRODUCTION INNOVATIONS

During the rapid industrialization Japan has experienced since the war, Japanese industries have done more than simply copy American industries. They have taken American concepts and improved upon them to the point where many U.S. businessmen are now studying Japanese plants in the hopes of being able to improve their own operations. This situation is clearly evident in Japan's steel industry which is highly automated and in the automobile industry which makes extensive use of robots. In the newest steel plants, for example, computer aided systems control the operation of the blast furnaces. This system uses TV cameras to allow the operators to visually follow the entire production process while the computer continuously keeps the operators informed of the chemical and metallurgical reactions taking place inside the blast furnace. This has eliminated much of the guesswork involved in making steel and has reduced costs by lowering energy consumption and by increasing the length of time before the furnace must be relined.

In addition to reducing costs, these technological innovations reduce the number of workers needed to operate the blast furnaces and rolling mills. Because they realize this new technology makes the company more competitive, the unions are working closely with management to find new jobs for their members rather than resist these changes. Some workers are being shifted to jobs with other divisions within the corporation while others are trained for the new jobs created by the technological innovations. This type of retraining program is an integral part of the Japanese philosophy that education is a continuing process which does not end when one graduates from school.

Another innovation Americans find intriguing is Kanban—a new method of minimizing inventory costs. Under this system, inventories for a factory never exceed the parts needed for a very short period of time, usually one day or less. In a Toyota assembly plant, for example, there may be only enough engine blocks on hand to last one hour. A small truck from the manufacturer delivers 60 engines to the final assembly line. The driver then takes a computer card authorizing the production of 60 more engines back with him. This steady stream of trucks delivering engine blocks directly to the assembly line essentially eliminates inventory costs. It also greatly reduces the cost of changing over to new parts or introducing new technology. For Kanban to work properly, however, the suppliers must be located close to the plant and the delivery system must operate smoothly. Many American companies are horrified by such a system because of the problems which would arise if the assembly line stopped or if the delivery of any of the wide variety of needed parts was late. The Japanese take a more positive view of Kanban, feeling it simply forces them to eliminate any bugs in the production process or the delivery system.

DOMESTIC PROBLEMS

As the Japanese economy moved into the 70s, it soon became evident that the rapid growth rates experienced during the 60s could not be continued indefinitely into the future. The gains of the 60s had been accomplished by expanding Japanese markets around the world and by developing industries which had relatively low costs compared to their returns. During the 70s it became evident that finding new markets or developing any further technological innovations would be more expensive and promised smaller returns. To complicate matters, the government had begun instituting a variety of social programs during the late 60s designed to assist those who had not benefited fully from the economic prosperity of the previous decade. At the same time the Japanese economy was trying to adjust to slower growth rates. This resulted in much greater pressures on the government's budget.

These problems began to surface in 1973 when OPEC suddenly increased the price of its crude oil four-fold. To fully understand the impact this had on Japan's economy, Americans need only realize that the United States was importing only one-third of its crude oil at that time. In contrast, imports represented more than 90 percent of Japan's consumption. Thus, finding a solution to the energy crisis was far more crucial to Japan than it was to the U.S. In spite of the public outcry for protection from higher energy prices, the Japanese government chose to allow the market to operate. The higher prices which resulted from this policy encouraged Japanese consumers and businesses alike to conserve energy and to develop alternative energy sources. The adjustment process was painful, but the Japanese government felt this was the only sensible way to approach the problem. In contrast, the United States chose to regulate the oil industry and tried to keep prices low to protect consumers. Although the rate of inflation was initially higher in Japan, by 1979 its rate had fallen to 3.6 percent while the United States was experiencing an inflation rate of 11.3 percent. One would have expected the opposite to have occurred if rising crude oil prices were, as Americans heard so often during the 70s, the cause of inflation.

ENVIRONMENTAL AND SOCIAL ISSUES

In spite of the economic problems brought on by OPEC's actions, during the early 70s public attention in Japan began to focus on social and environmental issues. Many felt the economic gains of the 60s had come at the expense of the environment and that certain segments of society had been forgotten. In response to this concern, a variety of programs, both public and private, evolved in an effort to improve the standard of living of the poorer segments of society and to clean up the water and the air. Automobiles, for example, must now comply with very strict emission standards. Some cities have even taken steps

specifically designed to reduce the rate of increase in automobile traffic. Osaka, for example, is decreasing the number of lanes on the major boulevards and zig-zagging other streets in an effort to simultaneously discourage people from driving cars and improve the safety of pedestrians by slowing down the flow of traffic.

Private industries are also making an effort to reduce any adverse effects they may have on the environment. This includes recycling gases and water in many of Japan's modern steel plants. In addition to a cleaner environment, this recycling helps lower energy consumption and therefore decreases the cost of production. To demonstrate that factories can be a clean and healthy place in which to work and live near, Kawasaki Steel Corporation has set aside 10 percent of the land at its Mizushima Ironworks for planting pine trees and other shrubbery. The results of this combined environmental and beautification program contrast sharply with the typical American steel mill.

The economic growth of the 60s provided the government with an opportunity to establish a wide variety of social programs for the less fortunate members of society. As long as the high growth rates continued, these public works programs could be financed without placing an undue burden on the taxpayers or the economy. However, as the real growth rate declined from in excess of 10 percent in the 60s to the 3 percent range in the early 80s, the government faced ever-increasing budgetary problems in its attempt to fund these programs. It soon discovered that once such programs are begun, they become very difficult to scale down, much less eliminate, even if they have already accomplished their initial objectives. Over the years, many people have come to regard these programs as a right for all Japanese citizens and expect the benefits of these programs not only to continue but to increase in the future. As a result, many Japanese are becoming increasingly dependent on the government and correspondingly less self-reliant. Politicians are currently finding it very difficult to control government spending in the face of this type of pressure from their constituents. Only time will tell whether or not they will be able to make the adjustments in social programs required by the lower growth rates of the 80s.

The Japanese National Railways (JNR) and Japanese public pension system are just two examples of the magnitude of this problem. Almost 80 percent of the 17,000 miles of railways in Japan is owned by JNR; the remainder is owned by private companies. The speed of the Shinkansen (bullet train) and the precision of Japanese trains is known the world over. However, few people are aware that JNR is an economic disaster with a deficit of almost $5 billion a year. In contrast, the private railways run just as precisely but are making a profit. A contributing factor to this difference in financial condition is the fact that the typical JNR train is operated by a crew of 14 or 15 while a crew of 10 runs the private trains. Because many Japanese have come to look upon JNR's services as a

birthright, recent efforts to eliminate routes which are losing money and raise fares have experienced stiff opposition. A major political battle occurred in 1983 over the recommendation by the Provisional Commission for Administrative Reform to put under private management Japan's three major public corporations—JNR, the Nippon Telegraph and Telephone Public Corporation, and the Japan Tobacco and Salt Public Corporation.

Japan's public pension system is a good example of the future financial problems which frequently result from governmental decisions made in the past. This system consists of serveral programs supported by contributions from the employer, the employee, and the government. In one of these programs, for example, it was estimated in 1982 that the present value of the lifetime benefits the average worker would receive was $140,000. In contrast, the present value of the contributions paid by the employee and his employer was only $40,000. Clearly, the benefits far exceeded the contributions. If these estimates are correct, future generations face a tremendous burden if the pension system is to continue operating as it is currently structured. The only reason the sytem is currently viable is the fact that only 2 million people are receiving benefits while 25 million are contributing. This situation will change drastically as the percentage of elderly people in Japan slowly increases. None of the three solution—increasing taxes on employees and employers, increasing the government's contribution which means increasing general revenue taxes, or reducing benefits—is politically popular. In addition, the future tax increases necessary to continue current increases in benefits will severely reduce the economy's ability to achieve sustained economic growth.

FARM SUBSIDIES

Another major problem which must be dealt with by Japan's government is the agricultural sector. In the early 80s, Japanese farmers paid less than $80 million in taxes each year and yet received almost $12 billion in support from the government. In other words, they received 150 times as much from the government as they paid in taxes.

This government support comes in a variety of forms, some of which are being questioned by other segments of Japanese society. Each summer, for instance, the farm lobby goes to the Diet to ask for an increase in the support price of rice even though they are already receiving three times the world price. So far, the political power of farmers has remained strong enough to successfully combat efforts to reduce the level of support they receive.

The favorable tax treatment given Japanese farmers has resulted in some interesting situations. While traveling through Tokyo, one sees vacant lots being used to grow a variety of crops. This seems strange considering the crowded conditions and the high cost of land in all major Japanese cities. The explanation is really quite simple. During the

Rice farmers are heavily subsidized in an effort to keep Japan from becoming dependent upon foreigners for its food supply.

early 80s, while Japan experienced a low rate of inflation, the value of land increased at a much higher rate. A small lot for a home rose in value to more than $60,000. The tax rates are quite high on commercial and residential property and on other forms of wealth. In contrast, the rates are quite low on agricultural land. Land in the city used for agricultural purposes is taxed at this lower rate and has therefore proven to be a very good investment.

BUDGET DEFICITS

In recent years, Japan's budget has become the focal point of conflict between those who want to expand social programs and to stimulate the economy by increasing government spending and those who want to lessen government's impact on the economy by reducing the budget. Those who wish to reduce government spending point to the alarming budget deficits of recent years. In 1973, the deficit represented less than 12 percent of the budget. This percentage gradually increased until it hit a peak of almost 36 percent of government spending in 1979, and then slowly declined to just over 20 percent in 1982. Borrowing 20¢ out of each dollar the government spends would have been unthinkable during the 60s. Deficits of this magnitude have created tremendous inflationary pressures within the Japanese economy and placed an additional strain on the government's budget. In 1982 almost 16¢ out of each dollar the government spent went to pay the interest on

the money it had borrowed in previous years. Servicing the national debt has thus become the third largest category in the government's annual budget, closely behind aid for local governments and social welfare. Many Japanese feel this is a clear indication that the budgeting process has gotten completely out of control.

Only time will tell who will win out—those who want the government to stimulate the economy and expand social programs or those who want to restrain government spending and reduce government's impact on the economy.

U.S.—JAPAN RELATIONS

Much attention has been given recently to the trade frictions which have developed between Japan and the United States. It is no coincidence that this change in attitude began during the 70s when both countries faced a variety of domestic economic problems. When a recession hits, it is only natural for a nation to blame someone else for its problems. During the 60s while the economy was strong, the American people focused their attention on social issues like poverty, on environmental issues like clean air and water, and on America's involvement in the Vietnam war. As inflation and unemployment began to rise during the early 70s, Americans looked for someone—preferably foreigners—to blame for their economic problems. It was easy to blame OPEC and the oil companies for the energy crisis and the accompanying shortages, the long lines at gas stations, and rising prices. It made little difference that the shortage and long lines were the result of governmental price controls. High unemployment rates in the automobile and steel industries were blamed on Japanese imports. Congress responded with quotas and trigger prices. Apparently it did not matter that many Americans preferred the quality and price of Japanese products and that trade restrictions reduced consumers' choices and increased the prices paid for these products.

The Japanese readily admit that the vitality of their economy is highly dependent upon maintaining strong economic and political ties with the United States. In 1980, for example, one fourth of Japan's exports went to the U.S. and over 17 percent of her imports came from America. No other country has as significant an impact on Japan's foreign trade—the life blood of the country. There is a great deal of truth to the saying that when America coughs, Japan catches a cold. Fully aware of their dependence on the United States, the Japanese feel they have made every effort possible to maintain friendly relations between the two countries. However they are afraid that America may be losing interest in this friendship.

JAPANESE CONCERNS

Japan's concerns date back to three changes in U.S. foreign policy which occurred during the early 70s. They are referred to as the Nixon shocks. On the diplomatic front, President Nixon changed long-standing U.S. policy and suddenly announced to the world he was opening relations with China. The Japanese did not object to this move itself but felt they should have been notified ahead of time about such a major change in foreign policy. Second, in an effort to stabilize the value of the dollar, President Nixon asked the governments of America's allies not to turn in the dollars they held to the U.S. Treasury in exchange for gold. France ignored the request while Japan was one of the few nations which honored it. When the United States suddenly announced it

would no longer sell gold to foreign governments and that the dollar was being devalued, the Japanese felt they had been betrayed. The third incident involved soybeans, an important part of the Japanese diet. When the soybean crop was smaller than expected, America restricted exports to foreign countries, including Japan, and used the soybeans for cattle feed. It was very difficult for the Japanese to understand how a country could place more importance on feeding its own cattle than on feeding people living in another country. These three incidents raised serious questions in the minds of many Japanese concerning the extent of America's commitment to the previously strong ties between the two countries. Economic events during the early 80s did little to reduce their fears.

TRADE FRICTIONS—JAPAN'S SIDE OF THE STORY

Relations between the two countries have deteriorated partly because of the different points of view Japan and America have concerning foreign trade. The United States tends to concentrate its attention on trade between individual nations, particularly merchandise trade. For example, the American press has long given much attention to the fact that the United States imports more Japanese goods than it exports to Japan. This situation resulted in a trade deficit of $10 billion in 1980. Figures like these help sway public opinion toward imposing trade restrictions on Japanese goods. In contrast, Japan prefers to look at a country's world-wide trade figures. They quickly point out that the United States enjoyed a $17 billion trade surplus with European nations during 1980. This more than offset the deficit it had with Japan that year. To be consistent, the United States should voluntarily take the same steps to reduce its surplus with Europe that it demands Japan take in restricting its exports to America.

The Japanese also feel that concentrating on merchandise trade alone is misleading. In addition to automobiles, steel, raw materials, machinery, and the like, nations purchase a wide variety of services from each other. This invisible trade includes such things as travel abroad and income from foreign investments. When these are included, a different picture of a nation's position in world trade often emerges. In 1981, for example, the United States had a deficit of almost $28 billion in its global merchandise trade, but enjoyed a surplus in invisible trade of $32 billion, including a $3 billion surplus with Japan. Thus, the United States had an overall surplus of $4 billion. Japan's situation was just the reverse. It enjoyed a merchandise trade surplus of $20 billion and a services deficit of $14 billion, leaving it with a surplus of $6 billion.

GOVERNMENT SUBSIDIES

Some American critics attribute much of Japan's economic success to the government's industrial policies and the subsidies which are a part of those policies. The Japanese respond by pointing out that

government intervention in its economy is far less than that practiced in many Western nations. The government's industrial policy provides the private business community in Japan with forecasts of emerging industries which show promise of future success on the world market. The government then provides the infrastructure necessary to encourage the development of these promising industries. In this way Japan is simply attempting to improve its economy under an open market system rather than a governmentally controlled economy. To support this view, they point out that government expenditures in Japan, as a percent of GNP, are the same as in the United States (roughly 33 percent) and are lower than that for most European nations—approximately 45 percent in England, France and West Germany. In addition, no private companies have been nationalized in Japan while government ownership of major industries is a common practice in many European nations.

The Japanese feel that all nations follow some form of industrial policy because the market mechanism cannot deal effectively with problems like pollution control, energy conservation and technological development. In the United States, for example, the federal government plays an influential role in such high-tech areas as semi-conductors, machine tools, and computers. Private industry in these areas are subsidized by the technological advances which result from programs funded by the Defense Department and NASA. In addition, the tax incentitives which exist in the United States for equipment investment and expenditures on research and development are quite similar to those in Japan. The Japanese therefore feel that criticisms of their government's industrial policy are far too simplistic and sweeping and that Japan's actions must be viewed in their proper international perspective.

JAPAN'S PROTECTIONIST MEASURES

Many Western nations have accused Japan of trying to improve its economy by expanding its export trade abroad while at the same time protecting its domestic industries with high tariffs. The Japanese readily admit that they have more trade barriers than would exist in an ideal free market economy. However, once Japan's trade practices are compared to those of other Western nations, the Japanese market is far less protectionist than the critics claim. The average tariff imposed on goods imported to Japan is approximately the same as those imposed in the United States and is typically less than those prevailing in the European Economic Community (Common Market).

In addition, the Japanese quickly remind foreigners of the many reductions in trade barriers which the government has accomplished in recent years. Many of these have been the result of negotiations with other nations under the General Agreement on Tariffs and Trade (GATT) which was established in 1947 to encourage a worldwide reduc-

tion in trade barriers. It is disturbing to the Japanese when the United States ignores the internationally sanctioned rules established under GATT and makes direct demands on Japan to open its markets to American goods or reduce Japanese exports to the United States. In 1981, for example, the U.S. government demanded that Japan voluntarily reduce its exports of automobiles to 1,680,000 or face even tougher restrictions imposed by Congress. One study estimated that this "voluntary" reduction increased the price of a Japanese car to the American consumer by $1,900. This type of tactic is completely outside the framework of GATT.

Joint ventures in the United States between Japanese and American firms are a recent attempt to ease the trade frictions between the two countries. The United States hopes such ventures will result in jobs for Americans and will reduce the trade deficit. Japan hopes they will reduce the anti-Japanese sentiment in the United States. Along with many benefits, these ventures have also caused some problems. When Toyota and General Motors signed an agreement that would reopen an automobile plant in Fremont, California, the stage was set for a confrontation between the United Auto Workers and the Japanese managers of the plant. The UAW insisted its laid-off members be given priority in hiring workers for the plant. Toyota felt it was under no obligation to agree to such a practice. To further complicate matters was the fact that before the plant had closed, its workers had operated under a national UAW agreement that is 251 pages long. The UAW had 30 committeemen on the floor of the Fremont plant whose sole job was to see that the agreement was administered properly. Such a practice contrasts sharply with the way the Japanese manage their own plants. Finding acceptable compromises to problems like these is essential if these joint ventures are to be successful.

From the Japanese point of view, they are the ones who have made all the trade concessions in recent years while Americans represent themselves as being the advocates of free trade. About the only trade barriers which are admitted to by the American press are those in the steel and automobile industries and they are justified on the grounds of protecting American workers. Few Americans are aware that the United States has over 900 pages of tariffs and quotas. Coverage ranges from a wide variety of agricultural products to such specific items as cigar bands, kites, toothpicks and clothespins. For this reason, many Japanese feel that the United States is not, in reality, the free trader it often claims to be.

THE AGRICULTURAL SECTOR

Japan is frequently criticized by Western nations for its policies designed to protect Japanese farmers. Many in the United States feel the trade imbalance between the two countries could be greatly reduced if Japan would only open its doors to agricultural exports from America.

They argue this would also benefit Japanese consumers by lowering the cost of food (particularly beef). Many Japanese realize this but are all too aware of the difficulties of enacting such a change. Many members of the Japanese Diet owe their political future to the farm vote. In addition, there are strong sentiments within Japan to support the agricultural sector so that the country does not become dependent upon foreign sources for its food supply. America's restrictions on soybean exports during the early 70s is commonly cited as an example of what may happen if Japan becomes dependent upon foreigners for its food supply.

The Japanese counter a charge of protectionism by explaining that problems associated with governmental support of agriculture are not unique to Japan. Most nations provide assistance for their farmers in a variety of ways; tariffs, quotas, price supports and tax subsidies to name a few. In September, 1982, for example, the Common Market govenments paid their wheat farmers $5.27 a bushel, plus 79¢ for transportation costs. Because this was almost twice the world price, the Common Market provided an additional subsidy of $2.53 per bushel for exported wheat in the hopes it could then compete on the world market. Farmers in the United States receive government assistance in the form of price supports and Executive Marketing Orders which allow producers to reduce the supply of a product in an effort to increase its price. American sugar growers, for example, received a support price of 18¢ per pound when the world price was 9¢. The amount of citrus fruit that reaches American consumers is determined by a board controlled by the growers. Trade restrictions keep Australian beef out of the United States.

Whenever possible, the Japanese government condemns the rise in protectionist feelings which have occurred around the world in recent years. By giving in to these pressures, each nation contributes to a reduction in world trade. This will inevitably hurt the world economy and therefore adversely affect the economies of all nations. As an alternative, Japan's government calls for a reduction of trade barriers between nations through GATT and encourages international cooperation leading to free trade, investment, exchange of technology, and joint research and development projects.

NATIONAL DEFENSE

Trade friction between the two countries has spilled over into the area of national defense. There is a growing feeling in the United States that Japan should increase its defense spending but not to the extent where it would become a regional military power. Many Americans argue that the Japanese have been able to expand their economy because they have not had to divert resources into building up their own military. However, few Americans are aware of the efforts of the Japanese government in recent years to increase defense spending. This has not been easy. The peace treaty signed after World War II clearly

states that Japan is opposed to the concept of war and will not build up its own military. It has no Army, Navy, or Air Force. It must rely instead on its Self Defense Force which has expanded in recent years. Another factor contributing to this problem is the limit of 1 percent of GNP placed on defense spending by the Diet. This reflects the strong anti-military feelings which still exist in Japan. The situation is made even more difficult because the government is trying to cut back on its spending in an effort to reduce the deficit while facing considerable pressure to stimulate the economy by expanding public works programs.

TIME FOR CONFLICT OR COOPERATION?

At a time when both countries face similar economic problems, political considerations must be put aside if the strong ties between the United States and Japan are to be restored. Internally, both nations are confronted by a slowdown in economic activity, rising unemployment, increases in government spending, growing deficits, and demands for expanded social programs. Externally, they face greater competition in the world market not only from each other but also from developing nations like South Korea, Taiwan, Hong Kong, and Singapore. In spite of these problems, the basic economies of both countries remain strong. Giving in to the increased pressure for protectionism may be politically appealing to Americans and Japanese alike, but this will not solve the economic problems they face. Instead, it will only make matters worse. The few jobs which may be saved initially in protected industries will be more than offset by the jobs lost at first in export industries and then in other parts of the economy as economic activity declines as a result of the higher trade restrictions. In addition, consumers will pay higher prices for the goods they buy and both the variety and the quality of these goods would be reduced.

What is the alternative to protectionism? Reducing, and eventually eliminating, all trade restrictions between the two countries. This would force industries which previously were protected to either become competitive in the world market or go out of business. Undoubtedly some companies in each country would fail. This could be offset by the emergence of healthier companies in the surviving industries and by the increase in general economic activity which would result from an expansion of international trade. In time, this new economic growth would help reduce the pressures on both governments to stimulate the economy by expanding social programs and thus help reduce budget deficits. Japanese and American consumers would benefit from the lower prices and improved quality resulting from increased competition.

This can occur only in an atmosphere of trust and understanding coupled with mutual cooperation and friendship. Japan and the United States cannot afford to repeat the mistakes of mutual misunderstandings, fear, racial prejudice, distrust, national pride, and ignorance of each others culture which characterized their relations during the 1930s. There is no reason why two countries which compete in world trade cannot remain friends. This is particularly true of Japan and the United States. If two countries with so many similarities in their economic, political, educational, and social systems cannot maintain friendly relations, then what two countries can?

Efforts to reduce the friction between Japan and the United States are of paramount importance not only to the two countries themselves but also to the entire free world. Because they account for one-fifth of the trade in the free world, an escalation of protectionism and a

deterioration of the political ties between the two countries could threaten the economic vitality of the entire free world. If the global economic trends which have occurred since World War II are any indication of the future, economic activities involving the United States and the Orient, particularly Japan, will dominate the world economy of the twenty-first century. A return to protectionism and the economic stagnation which is bound to result should not be allowed to happen. It is therefore imperative that the United States and Japan work toward solving their own internal economic problems while trying to build stronger economic ties with each other. Accurate information and a genuine effort to understand shared problems are vital to this process.

GLOSSARY

1. AMATERASU – The Sun Goddess
2. ASHIKAGA SHOGUNATE – ruler when the Portugese first made contact with Japan during the sixteenth century.
3. BUDDHISM – a religion that emphasizes resisting one's own selfish desires and places little importance on the material things in life.
4. DIAMYO – individual lords who ruled over different parts of Japan under the Tokugawa Shogunate.
5. DIET – the legislative branch of Japan's government.
6. EMPEROR JIMMU – according to legend, the first emperor of Japan.
7. FUJIWARA FAMILY – this family controlled Japan during the later part of the Heian Period.
8. GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) – this agreement was established in 1947 to encourage world trade through a series of reductions in the trade barriers between major industrial nations.
9. HEIAN PERIOD – between 794 and 1191 A.D., Japan used China as a model to change itself from a loose association of clans to a close knit monarchy.
10. IMMIGRATION LAW – passed in 1924, this law prohibited Japanese living in the United States from owning land.
11. IWAKURA MISSION – young Japanese scholars sent in 1871 to study Western countries.
12. KAMI – spiritual forces in the Shinto religion.
13. KANBAN – an inventory control system where a factory's inventory never exceeds the parts needed for a very short period of time.
14. LIFETIME EMPLOYMENT – major Japanese firms hire employees for their entire working lifetime.
15. MEDIEVAL AGES – between 1192 and 1867 A.D., Japan was ruled by a series of warriors known as Shoguns.
16. MEIJI RESTORATION – When the Emperor Meiji was restored to power in 1867, he began a new effort to modernize Japan.
17. MINAMOTO YORITOMO – he established the first Shogunate government at the beginning of the Medieval Ages.
18. MITI – the Ministry of International Trade and Industry is the minis-

try used by the government to influence the Japanese economy.

19. PRIME MINISTER – head of the executive branch of Japan's government.
20. QUALITY CONTROL CIRCLE – a small group of Japanese workers who cooperate with management in an effort to improve quality and reduce production costs.
21. SAMURI – warriors who were indifferent to suffering and pledged their personal loyalty to their feudal lord.
22. SHINKANSEN – the bullet train which provides fast rail transportation between major Japanese cities.
23. SHINTOISM – a religion which believes natural objects hold spiritual forces.
24. SHOGUNATE GOVERNMENT – a warrior, called a shogun, ruled Japan in the name of the Emperor during the Medieval Ages.
25. TAIRA FAMILY – they controlled Japan at the end of the Heian Period.
26. TOKUGAWA SHOGUNATE – ruled Japan for over 200 years beginning in the late sixteenth century.
27. ZAIBATSU – groups of closely knit subsidiary companies which cooperate to expand their economic power.

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The American free enterprise system, traditionally rests on three premises; the right of ownership, contractual freedom, and limited government. These premises generate predictable human behavior, yet behavior consistent with liberty and efficiency. Indeed, the American free enterprise system produces a standard of living and a degree of personal freedom that no other system (or country) has been able to duplicate.

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